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Computers and Technology in Banking Services in India

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Introduction

Today we live in a technology driven world. Industrial revolution gave birth to giant machines for industrial advancement and information technology has delivered intelligent machines to revolutionize human development. Today we are surrounded by automated smart technology, which has touched almost all spheres of human life, from military to medicine and from education to the election.¹ Electronic banking or e-banking is the fusion of information technology with the banking system. The dictionary.cambridge.org² defines electronic banking as,

“The use of the internet to organize, examine, and make changes to your bank accounts and investments, etc. electronically, or the use of the internet by banks to operate accounts and services.”

The Oxforddictionaries.com³ defines it as

“A method of banking in which the customer conducts transactions electronically via the Internet”

The bankersonline.com defines electronic banking as,

“.....The following terms all refer to one form or another of electronic banking: personal computer (PC) banking, Internet banking, virtual banking, online banking, home banking, remote electronic banking, and phone banking. PC banking and Internet or online banking are the most frequently used designations. It should be noted, however, that the terms used to describe the various types of electronic banking are often used interchangeably”

Thus the term electronic banking generically refers to various terms connected with virtual banking and often interchangeably used with the term internet banking.⁴

Acceptance of deposits and maintenance of accounts is the chief function of banks. The banks are free to devise deposit product within the guidelines framed by the Reserve Bank of India.

¹ Sujata Pawar and Yogesh Kolekar, Essentials of Information Technology law, Notionpress.com, 2015

² <http://dictionary.cambridge.org/dictionary/british/electronic-banking>

³ <http://www.oxforddictionaries.com/definition/english/e-banking>

⁴ <https://www.iobnet.co.in/newapps/html/terms.html>

The banks are also bound to follow the instructions on customer service issued by RBI from time to time. There are various types of deposit products offered by banks that are almost similar in nature however with different assigned names. (Kolekar, 2016)

The banking reform phase has been started since 1991 in India. It leads to Indian Financial & Banking Sector Reforms after 1991 including technological invention. In the reform phase many more new banking products and facilities issued by the banks in India. After 1991 the country is flooded with foreign and Indian private sector banks with their highly technology based banking products and services including ATM stations, credit cards, debit cards Ebanking and Net banking etc. The entire banking system became more convenient by these innovations. (Kumbhar, 2009)

A 'Central Bank' plays a vital role in the economy of a country. A Central Bank is an independent apex monetary authority which regulates banks, and provides important financial services like storing of foreign exchange reserves, control of inflation, monetary policy report. It has been described as the 'the lender of last' rescuing commercial banks and preventing the economy from failing. The functions of a Central Bank vary from country to country and are autonomous or quasi autonomous body and perform or through another agency vital monetary functions in the country.(Kolekar, 2015)

History of ebanking in India

The Rangarajan Committees⁵ drew a phased plan for bank computerization in the 1980's which recommended computerization of banks at various levels. The second Rangajan committee made important recommendation, including computerization of branch and connectivity between branch and establishment of ATM at strategically important places like airports, railway stations, hospitals, etc. The HSBC bank introduced ATM⁶ services in India in 1987 at Mumbai and Bank of India was among the first nationalized bank to introduce ATM services at its Mahalaxmi branch in Mumbai in the year 1989. In India, ICICI bank for the first time introduced an internet banking facility⁷ followed by City bank and HDFC bank.⁸

The systematic use of Core Banking Solution (CBS) was another milestone development in the history of ebanking in India. The Syndicate Bank was the first public sector bank to launch Core Banking Solution in the year 2001 in Bangalore.⁹ The Introduction of NEFT¹⁰ and RTGS¹¹ eased the nationwide transfer of funds and led to further growth of ebanking in India. The 'Institute for

⁵ Under the chairmanship of Dr. C Rangarajan, Governor of the Reserve Bank of India, One in year 1984 and another in 1988.

⁶ Automated Teller Machines

⁷ <http://www.gkduniya.com/bank-india>

⁸ <http://indianresearchjournals.com/pdf/APJMMR/2012/December/2.pdf>

⁹ http://www.business-standard.com/article/finance/syndicate-to-bring-1500-branches-under-cbs-106120101062_1.html

¹⁰ National Electronic Fund Transfer

¹¹ Real Time Gross Settlement

the development and Research in Banking Technology' (IDRBT) established in Hyderabad in mid nineties played a vital role in the facilitation of ebanking technology.¹² (Kolekar, 2016)

Definition of Banks

There is no statutory definition of 'Banks' in India.¹³ The Banking Regulation Act, 1949 however defines associated terms like Banking¹⁴ and Banking Company.¹⁵ An online dictionary defines 'Banks' as

*An establishment authorized by a government to accept deposits, pay interest, clear checks, make loans, act as an intermediary in financial transactions, and provide other financial services to its customers.*¹⁶

The Oxford dictionary defines it as,

*"A financial establishment that uses money deposited by customers for investment, pays it out when required, makes loans at interest, and exchanges currency"*¹⁷

Lord Denning in *United Dominions*¹⁸ case defined Banks as

"An establishment for the custody of money received from, or on behalf of its customer. Its essential duty is to pay their drafts on it; its profits arise from the use of money left unemployed by them."

Section 5 (b) of The Banking Regulation Act, 1949 defines 'Banking' as

"banking means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise."

Section 5(c) of The Banking Regulation Act, 1949 defines 'Banking Company' as

'Any company which transacts the business of banking in India

Explanation.--Any company which is engaged in the manufacture of goods or carries on any trade and which accepts deposits of money from the public merely for the purpose of financing its business as such manufacturer or trader shall not be deemed to transact the business of banking within the meaning of this clause.

¹² Technology in Banking- In Pursuit of Excellence, Address by Shri Anand Sinha, Deputy Governor, Reserve Bank of India at the IDRBT Banking Technology Awards at Hyderabad on August 4, 2011

¹³ The Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949 does not define the term 'Banks'.

¹⁴ Section 5(b) of The Banking Regulation Act, 1949

¹⁵ Section 5(c) of The Banking Regulation Act, 1949

¹⁶ <http://www.businessdictionary.com/definition/bank.html>

¹⁷ <http://www.oxforddictionaries.com/definition/english/bank>

¹⁸ *Union Dominions Trust v Kirkwood* [1966] 1 All English Reports, page 968

The Negotiable Instruments Act, 1881 under Section 3 interprets Banking as,

'Banker includes any person acting as a banker and any post office savings bank'

Bank, Banking and Banking Company

The words 'Bank', 'Banking' and 'Banking Company' are closely associated terms. This is emphasized by Section 7 of the Banking Regulation Act, 1949 which restricts its usage to banking company only.¹⁹ It further emphasizes that, companies in the business of banking shall have at least one of such words as part of its name.²⁰ (kolekar, 2016)

Functions of Banks

Section 6 of the Banking Regulation Act, 1949 provides forms of the business in which banking companies may engage and these include,

Acceptance of deposits – One of the key functions of banks is to accept deposits from the public. There is a general restriction on acceptance of deposits from the public by the other financial entity.²¹ The banks are free to formulate deposit policy²² based on broad guidelines issued by Reserve Bank of India.²³

Lending or advancing of money – Granting loan or advances is one of the major functions of banks, subject to statutory and other restrictions.²⁴

Drawing, accepting, discounting and dealing with bills of exchange²⁵ etc.²⁶

1. Granting of letter of credit.²⁷
2. Dealing in stocks, funds, shares, debentures.
3. Buying and selling of foreign exchange.

¹⁹ Section 7(1) of the Banking Regulation Act, 1949

²⁰ Section 7(2) of the Banking Regulation Act, 1949

²¹ Section 73 to 76 of the Companies Act, 2013 and Companies (Acceptance of Deposits) Rules, 2014 regulates the invitation and acceptance of deposits.

²² Deposit policy adopted by Indian Banks Association, http://www.iba.org.in/model_depositpolicy.asp

²³ Instructions on financial matters, <http://www.rbi.org.in/commonman/english/scripts/FAQs.aspx?Id=326>

²⁴ Master Circular on Loans and Advances - Statutory and Other Restrictions
http://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=8135

²⁵ *An unconditional written order from one person to another to pay a specified sum of money to a designated person*, <http://www.merriam-webster.com/dictionary/bill%20of%20exchange>

²⁶ Including hundies, promissory notes, coupons, drafts, bill of lading, railway receipts, warrants, debentures, certificates, scrips,

²⁷ *A letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase*, <http://www.investopedia.com/terms/l/letterofcredit.asp>

4. Agency functions for Government or local authority.
5. Guarantee²⁸ and indemnity.²⁹
6. Undertaking and executing trust.³⁰
7. Doing all such other things as are incidental or conducive to the promotion or advancement of the business of the company

Business Prohibited for Banking Company

A banking company cannot directly or indirectly engage deal in the buying, selling and bartering of goods except realizing security held by it.³¹

Conclusion

Information Technology has brought vital changes and challenges in the banking sector worldwide. The journey of banking technology started with computerization and ATM's and has now reached into individuals mobiles. This has enhanced speed and convenience, but also exposed to risk of cybercrime or phishing.³² A Phishing is a crime of fraud or deception through emails. The perpetrator sends email resembling legitimate one to lure the user to reveal a password or financially vital code.³³

The Assocham³⁴ India has recently brought forward alarming figures³⁵ that the number of cyber crime may double in may double to three lakh in 2015 largely due to increased use of smartphones and tablets for online financial transactions. According to Ultrascan Advanced Global Investigation report, it is found that in the year 2013, India stood in fourth position

²⁸ A "contract of guarantee" is a contract to perform the promise, or discharge the liability, of a third person in case of his default. The person who gives the guarantee is called the "surety", the person in respect of whose default the guarantee is given is called the "principal debtor", and the person to whom the guarantee is given is called the "creditor". A guarantee may be either oral or written. Section 126 of Indian Contract Act, 1872

²⁹ A contract by which one party promises to save the other from loss caused to him by the contract of the promisor himself, or by the conduct of any other person, is called a "contract of indemnity". Illustration, A contracts to indemnify B against the consequences of any proceedings which C may take against B in respect of a certain sum of 200 rupees. This is a contract of indemnity. Section 124 of Indian Contract Act, 1872

³⁰ A "trust" is an obligation annexed to the ownership of property, and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner. Section 3, Indian Trusts Act, 1882

³¹ Or in connection with bill of exchange received for collection.

³² A critique on phishing crime in india, Yogesh Kolekar, LW (2015) June 6

³³ <http://searchsecurity.techtarget.com/definition/phishing>

³⁴ The Associated Chambers of Commerce & Industry of India

³⁵ Sunday, January 04, 2015, <http://www.assocham.org/newsdetail.php?id=4821>

globally to lose money in the famous Nigerian email scam.³⁶ Every year, thousands of people become victim of different email scams; hence it is necessary to take preventive steps.

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³⁶ Ultrascan AGI is a subsidiary of Ultrascan Research Services, an International Research Organization that focuses on (internet) crimes such as Advance Fee Fraud (419), Corporate Identity Fraud, Credit Card Fraud etc.